

No. 11,347

IN THE

United States Circuit Court of Appeals
For the Ninth Circuit

LERNER STORES CORPORATION (a corporation),

Appellant,

vs.

WILFRED A. LERNER,

Appellee.

BRIEF FOR APPELLANT.

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ABSTRACT OF THE CASE.

May it Please the Court:

Appellant Lerner Stores Corporation brought this action to enjoin appellee Wilfred A. Lerner from designating as "Lerner's" a newly-opened retail store in San Jose, California. Both parties are engaged in the retail sale of feminine wearing apparel. The District Court denied the injunction on the ground, in effect, that although appellant operated a national chain of 181 stores in 41 states and the District of Columbia, including 13 stores in California of which 2 are in San Francisco and 1 in Oakland, nevertheless, under such facts there could be no unfair competition between the parties because appellant did not

have one of its stores in San Jose; this in spite of the undisputed fact that appellant had a regular patronage from San Jose and communities adjoining it. This is an appeal by plaintiff from the judgment in favor of the defendant.

JURISDICTIONAL STATEMENT.

The statutory provision that sustains the jurisdiction of the District Court is Judicial Code, Section 24 first, 28 U.S.C.A. 41(1), granting original jurisdiction to the District Courts of all suits of a civil nature between citizens of different states where the matter in controversy exceeds, exclusive of interest and costs, the sum of \$3000.00. The complaint (Tr. 2) and the findings (Tr. 30) disclose the requisite jurisdictional facts.

The statutory provision that sustains the appellate jurisdiction of this Circuit Court of Appeals is Judicial Code, Section 128, 28 U.S.C.A. 225, granting jurisdiction to review "final decisions in the district courts".

SPECIFICATION OF ERRORS.

Appellant's position is that:

(1) The trial Court erred in refusing to make any finding on certain material points as to which the evidence was uncontradicted;

(2) Many of the findings made by the trial Court are not supported by the evidence;

(3) Under the uncontradicted evidence the Court erred in refusing to grant any relief to appellant in connection with the use by appellee of the name "Lerner".

In presenting this appeal appellant has in mind the governing rule that the trial Court's appraisal of the evidence will not be set aside unless it is clearly erroneous. This appeal is predicated upon the proposition that a review of the evidence in detail and consideration of the record as an entirety leads to the conclusion that material portions of the findings of the trial Court are not supported by evidence, that the lower Court failed to give proper legal effect to the facts set forth in the record, and that the judgment should be reversed upon the basis of the well settled rule that:

"The findings of fact of the court below to the extent that they are unsupported by substantial evidence, or are clearly against the weight of the evidence, or were induced by an erroneous view of the law, are not binding upon this Court."

Aetna Life Ins. Co. v. Kipler, 8 Cir., 116 F.

(2d) 1, 5.

STATEMENT OF THE EVIDENCE.

The record shows the following uncontradicted facts (References are to the printed Transcript of Record):

Appellant is a corporation organized under the laws of the State of Maryland. Both directly and through the medium of wholly-owned subsidiary corporations, appellant is engaged in the operation of a large chain

of retail stores which sell feminine wearing apparel, styled and sized primarily for juniors and misses. (Tr. 217-218.) The items sold are skirts, suits, dresses, fur-trimmed and untrimmed coats, fur coats, sweaters, slacks, slack suits, blouses, lingerie, hosiery, millinery and handbags. (Tr. 184-185.)

At the time this action was commenced the stores operated by appellant numbered 181, and were located in 41 states and the District of Columbia. Appellant does not advertise its stores in newspapers or magazines or over the radio, but the stores are patronized by literally millions of customers each year. (Tr. 104-105.) Appellant's stores constitute a profitable business to which is attached a valuable good will. (Tr. 93, 161-162.)

Each of the stores is formally designated as "Lerner Shops" by a billboard type of sign located above and extending across the front of the store, and by appellant's price tags, boxes and bags and sales slips. But the evidence proved beyond the possibility of argument that both in speaking and writing, appellant's patrons designate the stores as "Lerner's". The bulk of the checks received from customers are made out to "Lerner's". (Tr. 192.) Original checks not deposited and photostats of checks which had been deposited were presented in Court. (Tr. 191.) The customers speak of the stores as "Lerner's". (Tr. 190, 194, 213, 228.) A survey made among the people on the street showed that more than 95% of persons contacted know and designate the stores as "Lerner's". (Tr. 225-227.)

The operating policies of appellant, practiced on a national scale, are calculated to build up a nationwide reputation and good will. All of appellant's stores carry the same quality and styles of merchandise and sell for uniform prices throughout the country. (Tr. 64.) A garment is sold for the same price in San Francisco as in New York without regard to transportation or other expense differentials. (Tr. 65.) Such uniform pricing differs from the general practice of competitors. (Tr. 65.) Appellant's patrons have the privilege of obtaining exchanges, adjustments or refunds in any of its stores, no matter where the original purchase was made. Many patrons make use of this privilege. (Tr. 101-102.) Appellant's stores in the various cities, such as San Francisco, are patronized every day by many persons who have traded in its stores in other cities. (Tr. 212, 215, 223.) Such patronage constitutes a substantial amount of business. (Tr. 93-94.)

Appellant sells on a mark-up of approximately $33\frac{1}{3}$ per cent (Tr. 162), which is a lower mark-up than is used by most of its competitors. (Tr. 200-201.) Articles such as coats or dresses may be purchased in appellant's stores for one or two dollars less than the same or comparable articles are sold in nearby large department stores. (Tr. 65-66.) For example, the same dresses which are sold by appellant for \$7.95 are sold in The Emporium in San Francisco for \$8.98 and \$9.98, and appellant's coats sold at \$18.95 sell from \$19.00 to \$22.95 in The Emporium. (Tr. 194-195.) Similarly, the prices in appellant's stores are

usually lower than those of competing chains of stores such as Zukors and others. Dresses sold by appellant for \$7.95 cost \$8.95 at Zukors. (Tr. 200-201.) There are some chain stores which sell for about the same prices as appellant, but very few stores of any type which undersell appellant. Appellant sells the same merchandise sold by others, but at cheaper prices. (Tr. 117.)

Appellant has established a reputation for selling garments of the latest styles at popular prices. (Tr. 216-217.)

The origin of appellant's business dates back to 1919. Its entire history has been one of expansion of its retail stores. Three brothers, Samuel Lerner, Joseph Lerner and Michael Lerner, opened the first stores, six in number, in New York and New Jersey in 1919. They were designated "Lerner Blouse Corporation". Subsequently, additional stores were opened and additional corporations formed, the capital stock in each instance being owned directly or through a parent-subsidary arrangement by the three Lerner brothers. The names of the corporations were changed in 1925 to "Lerner Stores Corporation". Appellant was incorporated in 1929 and acquired from the three Lerner brothers the stock of the companies which had been previously organized. (Tr. 72-74, 111-113.) Appellant has outstanding capital stock consisting of 1,200,000 shares of Common Stock and approximately 32,000 shares of Preferred Stock. The Common Stock is listed on the New York Stock Exchange and is held by between 1200 and 1500 persons. The Preferred

Stock is not listed but is traded in over-the-counter. (Tr. 92-93.) The three founders of the business are still active: Samuel Lerner is Chairman of the Board of Directors, Joseph Lerner is President of the Company, and Michael Lerner is Treasurer and a Vice-President. (Tr. 71.) In addition, Joseph Lerner has two sons and Samuel Lerner has one son who are connected with the business but at the date of trial were absent therefrom while serving in the United States Army. (Tr. 72.)

It has been the policy and practice of appellant to continually expand its organization and open new stores. (Tr. 75.) Starting with six stores in 1919, new stores were added: 8 stores in 1921, 1 store in 1922, 4 stores in 1923, 12 stores in 1924, 9 stores in 1925, 14 stores in 1926, 20 stores in 1927, 27 stores in 1928 and 35 stores in 1929.

The remaining 45 stores making up the total of 181 stores were opened during the years 1930-1944, including appellant's 13 stores in California.

The practice is for new stores to be opened first in populous cities, followed by stores in surrounding communities (Tr. 76, 137) after a nucleus of business from the surrounding communities has been built up. (Tr. 79-80.) That is the practice of other chain store organizations as well as appellant. (Tr. 80.) Leases or purchases of property are made in advance in accordance with the plan of expansion (Tr. 69, 63-64) and the property is improved and occupied by one of appellant's stores as soon as possession can be obtained. (Tr. 86.) Appellant gave up a few leases during the

early years of the depression which started in 1929, but no location has been abandoned since 1932. (Tr. 145.)

Appellant first began business in the State of California in 1930. It established its stores in California at the times and places shown by the following list, and except as noted, has continued to operate such stores (Tr. 67-69):

Pasadena	1930
Santa Barbara	1930
San Diego	1930
San Bernardino	1930
Los Angeles	1930
(Closed in 1942 because of inability to renew expired lease)	
Long Beach	1931
San Francisco (Grant Avenue store) . . .	1934
Oakland	1934
San Francisco (Market Street store) . . .	1935
Stockton	1940
Huntington Park	1942
Inglewood	1942
Bakersfield	1943
Fresno	1944

As a part of its program of expansion appellant had also planned the opening of additional stores in California. At about the same date that appellee opened his store (Tr. 85-86) appellant had leased larger quarters for its Market Street store in San Francisco (Tr. 63-64) and had leased or purchased for the establishment of stores 14 additional locations in California in the following cites (Tr. 69):

Beverly Hills
Glendale
Hollywood
Los Angeles
Riverside
Santa Monica
Ventura
Modesto
San Jose
Burlingame
Palo Alto
San Mateo
Vallejo
Sacramento

The location which appellant had leased in San Jose consists of a piece of property at 152 South First Street. It is on the same side of the street in the block immediately south of the store subsequently opened by appellee at 70 South First Street. Appellant concluded the lease of said San Jose property in 1941, for a term of 21 years, commencing July 21, 1942. Under the terms of the lease appellant was obligated to build a new building on the leased premises and to conduct one of its regular stores therein. However, subsequent to the execution of the lease, but prior to the commencement of the term thereof, the war broke out and the necessary construction work upon said premises was prohibited by the regulations of the War Production Board. The lease has continued in full force and effect, and appellant plans to construct the new building and open its store in San Jose as soon as the war restrictions will permit. (Tr. 83-85.)

Appellant's two stores in San Francisco were opened in 1934 and 1935 respectively and its Oakland store was opened in 1934. Photographs of these stores constitute Plaintiff's Exhibits 1 and 2 in evidence. (Tr. 89-90.) One of the San Francisco stores is at 871 Market Street, adjoining The Emporium. It has a frontage of 80 feet on Market Street, is 258 feet deep, and uses the first and second floors and the basement of the building. (Tr. 63.) The other San Francisco store is on Grant Avenue, adjoining The White House (Tr. 67), and has a frontage of 20 feet on Grant Avenue. (Tr. 92.) The Oakland store is located at the corner of 12th and Washington Streets and has a frontage of 18 feet. (Tr. 67, 92.)

In locating its stores in San Francisco, appellant took into consideration the trading area of San Francisco. (Tr. 77.) Mr. Magee, a vice-president of appellant, and the man who made appellant's original leases in San Francisco, testified that he took into consideration the fact that there are easy transportation facilities for shoppers between San Francisco and certain surrounding communities, that the people of such communities read the morning and evening San Francisco newspapers carrying extensive advertising of San Francisco retail stores, and that such papers are sold on the streets in such communities. (Tr. 77-78.) He determined that communities located as is San Jose are within the trading area of San Francisco. (Tr. 77-78.)

Mr. Magee further testified that at the time that he started to negotiate for a lease in San Jose it had

been determined by appellant that the company had built up a nucleus of business in San Jose and surrounding communities for the opening of a new store in that city. (Tr. 79.) Appellant's stores sell only for cash, and no record is kept of the names or addresses of patrons. However, customers who desire to make exchanges or procure refunds are required to sign slips and give their names and residences. In addition, some patrons pay by checks drawn on banks located in the cities or towns where they reside. Mr. Magee pointed out (Tr. 79): "Yes, we had been in business on Market Street in our large store since 1935 and we had built up a very substantial volume. The records that we would have there in the form of credit slips would indicate we had a great many customers in San Jose, and also other surrounding communities of San Francisco."

Supplementing the foregoing testimony, appellant produced in Court its original business records of exchanges, refunds and adjustments as well as checks and photostatic copies of checks received from customers and drawn on banks located where such customers reside. (Tr. 211.) The refund and exchange slips showed that in a period of eight months ending March, 1945, appellant's Market Street store had 263 exchange and refund transactions with persons residing on the San Francisco Bay peninsula from San Mateo to and including San Jose. (Tr. 189.) Refund and exchange transactions occur in from six to seven per cent of the total sales made by a store of appellant. (Tr. 187.)

Therefore, it may be deduced that the total number of transactions of such store from those communities on the peninsula during the eight months' period was 4,400 transactions or an average of 550 transactions per month. (Tr. 189.) The exchange and refund slips produced in Court showed that 30 of the patrons who made exchanges were from Palo Alto, 31 from Redwood City, and 13 from San Jose. (Tr. 211.) It may be further deduced, therefore, that appellant's Market Street store alone has approximately 324 transactions per year with residents of San Jose and a larger number of transactions with residents of Palo Alto and Redwood City, and the record shows that appellant's Grant Avenue store and its Oakland store had additional transactions with residents of each of those communities. (Tr. 228.) Appellant's employees in its San Francisco and Oakland stores testified that they have many customers from Redwood City, Palo Alto, San Jose, Santa Clara, Los Altos, Los Gatos and other peninsula communities, and that such customers patronize appellant's stores regularly and continually and not merely on isolated occasions. (Tr. 186, 214, 223-224.) The checks received from customers drawn on banks in the peninsula communities and produced in Court substantiated the foregoing testimony of appellant's employees. No attempt was made to contradict the foregoing testimony.

Moreover, it was not disputed that about 25 per cent of the retail business done in San Francisco comes from communities outside of San Francisco and that

about 9 per cent of all of the business done in San Francisco comes from the peninsula area, south from San Francisco to San Jose. (Tr. 206-208.)

The conduct of appellee Wilfred A. Lerner of which appellant complains began in May, 1944, shortly prior to the date that appellee opened his store in San Jose and designated it as "Lerner's". At that time appellee ran a series of advertisements in the morning and evening newspapers published in San Jose and sold and circulated in that city and in the surrounding communities such as Palo Alto, Redwood City, and others. (Tr. 234.) Those advertisements are set forth at pages 12-15 inclusive of the transcript. In those advertisements appellee advertised neither prices nor quality of merchandise, and stressed the opening in San Jose of "Lerner's". The first advertisement which appellee published in the San Jose newspapers stated (Tr. 12):

"Ladies
For You Soon
Lerner's
70 South First Street
Watch
Wait."

This was followed by an advertisement which set forth that (Tr. 14):

"LERNER'S
70 S. First St., San Jose
Makes a 'Spectacular Entrance!'"

After his store had been opened approximately one week, appellee's newspaper advertisement (Tr. 15)

expressed appreciation for acceptance of the new store and closed with the words:

“As always—Lerner’s.”

Appellee had never engaged in business in the sale of feminine wearing apparel at retail prior to May, 1944. He had never before engaged in any retail business and had never before had a place of business of any kind in San Jose. He had been associated for many years with his father in San Francisco, in the manufacture and in the sale at wholesale to dealers and stores of woman’s coats and suits. That business was conducted exclusively under the name “L. G. Lerner”. Appellee knew of appellant’s stores in San Francisco, Oakland, and elsewhere prior to opening his retail store in San Jose and had been in one or more of such stores. (Tr. 230.)

Appellee’s store in San Jose is located on the main shopping street in the central business district, and employs six persons in addition to appellee and his wife. (Tr. 258.) It is approximately 20 feet wide by 110 feet deep. (Tr. 258.) Plaintiff’s Exhibit No. 9 (Tr. 231) in evidence shows its appearance at the time that it was opened. It was designated as “Lerner’s”:

(a) By means of a billboard type of sign 18 feet wide placed above the front of the store and extending the entire width thereof, upon which the name “Lerner’s” was placed in large letters across the entire width of the sign;

(b) By the inscription of the name “Lerner’s” on each of the show windows of the store (Plaintiff’s Exhibit No. 10, Tr. 231);

(c) By the inscription of the name "Lerner's" on the marble or tile entrance-way to the store. (Plaintiff's Exhibit No. 17, Tr. 245.)

Appellee used paper bags, boxes, envelopes, stationery and sales tags upon each of which his store was advertised prominently as "Lerner's". Photostatic copies of certain of these appear in the transcript. (Tr. 235, 238, 242.)

The persons who patronize appellee's store include people from Palo Alto, Redwood City, Los Gatos, Los Altos, Santa Clara and other peninsula communities, as well as San Jose. (Tr. 260.) The merchandise sold is misses' and juniors' coats, suits, dresses, sweaters, blouses, slacks, slack suits, jackets and skirts. (Tr. 249.) And it was stipulated that the prices at which such garments are sold by appellant and appellee,— "overlap unquestionably but (appellee's) top lines are higher than (appellant's) top lines, and (appellant's) bottom lines are down lower than (appellee's) bottom lines; we overlap in the middle." (Tr. 254.) For example, appellant sold suits priced from \$6.95 to \$39.95 (Tr. 185), while appellee's price range for suits was from \$19.95 to \$45.00 (Tr. 251); appellant's range for fur-trimmed coats was from \$24.95 to \$79.00 (Tr. 185), while appellee's range for such coats was from \$49.95 to \$110.00 (Tr. 256-257); appellant's price range for dresses was from \$4.95 to \$29.95 (Tr. 185), while appellee's range for such dresses was from \$7.95 to \$20.95. (Tr. 249.)

Appellee sells on a mark-up of 42 per cent, as compared with appellant's mark-up of $33\frac{1}{3}$ per cent. (Tr. 276.)

Appellee testified that following the opening of his store persons have come in once or twice a month and have inquired whether he was related to the people who had the store in San Francisco. (Tr. 263.)

Appellant presented evidence to which the trial Court stated it could not attach any weight (Tr. 294), that some of the patrons of appellant's stores in San Francisco and Oakland had been confused and had believed that appellant had opened one of its stores in San Jose, and that some of such persons had made purchases in appellee's store under the mistaken belief that they were dealing with appellant. This evidence was as follows:

Mr. Magee testified that while he was engaged in one of his frequent visits to appellant's San Francisco stores (Tr. 96) he learned of appellee's store in San Jose through a sales girl calling attention to a customer who claimed to have bought merchandise in a San Jose store which the customer thought was one of appellant's stores. (Tr. 95.) The customer thought that the merchandise purchased in San Jose "wasn't up to the quality of merchandise sold in appellant's store in San Francisco" (Tr. 95);

Mr. Silverman, who is in charge of appellant's stores in San Francisco, testified that on a number of occasions, estimated at more than twice per week following the opening of "Lerner's" in San Jose (Tr. 196-197), he was called upon by sales persons or as-

sistant managers (Tr. 195) to speak with patrons who stated that they had been in appellant's store in San Jose. Even after Mr. Silverman told such persons that appellant had no store in San Jose, some of them would insist: "But I was in your store in San Jose" (Tr. 195-196);

Jessie Shelton, Coat and Suit Department Manager in appellant's Market Street store, testified that one of the sales girls asked her to talk to a customer who was making an inquiry concerning appellant's San Jose store. (Tr. 214.) Mrs. Shelton told the customer that appellant had no store in San Jose, but the customer was not convinced (Tr. 214);

Ann Davis, Dress Department Manager of appellant's Market Street store, testified that on a couple of occasions (Tr. 222) customers for whom she "OK'd" checks said, for example, that they were from down around San Jose and frequently shopped in appellant's store in San Jose;

It was stipulated that Mrs. Elert, Manager of appellant's Grant Avenue store, and Miss Kane, Manager of its Oakland store, would testify, among other matters, that patrons have referred to appellant's new store in San Jose, and have insisted that they had seen the store even though appellant's employees told them that appellant had no store in San Jose. (Tr. 228.)

On July 12, 1944, shortly after appellee opened as "Lerner's", appellant wrote to him and demanded that he desist from the use of that name. Appellee refused. He continued the use of the original sign over his store until after the commencement of this

action and until January 1, 1945. (Tr. 244.) At that time the word "Wilfred" was added in very much smaller letters, in the upper left hand corner of the sign (Tr. 244) in the manner shown by Plaintiff's Exhibit No. 14. The designation of the store as "Lerner's" on each of the show windows was continued until subsequent to the commencement of this action and late in 1944. (Tr. 244.) The use of the name "Lerner's" on the floor of the entrance-way has been continuously maintained by appellee without change. (Tr. 245.)

Appellee continued to advertise his store in the San Jose newspapers as "Lerner's" until after suit was commenced and until November 26, 1944. (Tr. 246-247.) On November 26, 1944, he began the use in his newspaper advertising of his given name, "Wilfred", in conjunction with the designation of "Lerner's". (Tr. 246.) Appellee continued the use of the designation "Wilfred Lerner's" in his advertisements until December, 1944, on which date he ceased the use of the apostrophe and the "s". (Tr. 246.) Appellee continued to use sales tags designating his business as "Lerner's" until April, 1945. (Tr. 240.) Boxes, bags and stickers designating said business as "Lerner's" were used until subsequent to the commencement of this action. (Tr. 238-239.) The advertisements put out by appellee and the pictures of his place of business show that in the use of the name "Wilfred Lerner" (in those instances where appellee began to use that designation) he has subordinated the name "Wilfred" both in size and position to his surname and has emphasized the name "Lerner".

At the conclusion of appellant's presentation of the foregoing evidence the trial court advised appellee that the Court did not believe that it was necessary for appellee to offer any evidence (Tr. 265) and that the Court was unable to see any equity in appellant's case. (Tr. 282.) Evidently it was the view of the trial Court, as evidenced by statements from the bench (Tr. 294-297), that while appellant had built up a valuable and expanding business and a substantial good will, it had no store actually located in San Jose, and there was no likelihood of confusion or unfair competition as between appellee's store in San Jose and appellant's stores in San Francisco and Oakland. The Court directed that findings and judgment should be prepared denying appellant any relief.

ARGUMENT.

Appellant's position is that:

(1) The trial Court erred in its analysis of the legal effect of the evidence and that such erroneous analysis resulted in findings which are wholly inadequate and misleading;

(2) On the basis of the evidence and the applicable authorities it was the duty of the trial Court to make findings based on the undisputed evidence, that appellant's business is well known and usually referred to as "Lerner's", that such business included a regular and substantial patronage from San Jose (where appellee's store is located) and from nearby communities, that appellant's business has been from its

inception an expanding one and that San Jose was within the normal area of expansion thereof when appellee opened his store and designated it as "Lerner's", and that confusion and unfair competition have resulted from appellee's designation and advertisement of his store as "Lerner's";

(3) It is uniformly held by the many authorities which have considered the matter, that a concern such as appellant which has first established a reputation for a particular name in a business is entitled to protection of that name against a later comer even though not in the same city, if the parties are in actual competition or the business of the later comer is located within the normal area of expansion of the first comer;

(4) The fair inference from the evidence is that appellee deliberately adopted the designation "Lerner's" for the purpose of obtaining the benefit of appellant's good will, in which event he should be restrained from using the name "Lerner" as his trade name. The least relief to which appellant is entitled, under the authorities, and under the most favorable view of the evidence from appellee's standpoint, is an injunction against any use of the name "Lerner" by appellee which is not accompanied by other distinguishing features such as his given name displayed with equal prominence.

I. THE FINDINGS FAIL TO REFLECT THE EVIDENCE ON MATERIAL POINTS AND ARE CLEARLY ERRONEOUS UPON OTHER MATTERS.

The findings of fact do not fairly reflect the condition of the record in that they make no reference whatsoever to a number of material matters which were the subject of uncontradicted evidence, and in other instances they find as a fact matters which are in direct conflict with all of the evidence directed thereto. Both by objection to the findings and upon motion for a new trial, appellant requested more complete and accurate findings. However, the Court refused to make findings even upon undisputed facts unless they would tend to uphold the decision which the Court desired to render, stating its view as follows (Tr. 288):

“* * * I feel that the judge, having decided the case on the facts in favor of one side, is not required to find facts that are favorable to the other side of the case, because all of those matters are in the record and may be raised on appeal, or a motion for a new trial. I know that the attorneys sometime ago in a case felt aggrieved because I would not make findings in the case as to the facts that were favorable to his side, and would only make findings of fact that were favorable to the other side, and I said that I felt I found from the facts that sustained the judgment that I wanted to give in the matter, and that I either did not believe or did not accept or did not give weight to the other facts, and I saw no reason for making a finding in the record, that the facts were in the record, and if the judgment was not sustained by the facts which the court found then, of

course, they could be set out on rehearing or motion for a new trial, or on appeal. So I say that if I rule against you, because you want me to find some facts in the case that you think would help to sustain a finding the other way, I will rule against that, because I do not think that matter is before me. I think that the court can find the facts that it believes in its judgment and in its conscience are the facts, that it wants to find that sustains the judgment. I just want to make that clear. You can raise any point on a motion for a new trial that you can raise, but I do not think that any court should stultify itself by making some finding of fact in favor of the side that has not been successful. It does not make sense to me. However, you present the matter any way you wish, but I just want to point out to you I am only going to make findings necessary to sustain a judgment in this case.”

Appellant's stores are known and referred to as “Lerner's”.

As a consequence of the trial Court's quoted view of what the findings should contain, there is no reference whatsoever in the findings with respect, for example, to the very material issue and undisputed proof that the majority of appellant's patrons and prospective customers identify and designate appellant's stores as “Lerner's”.

Appellant had established a valuable reputation.

Likewise, the findings, while adverting to the fact that appellant sells low or popular priced apparel, fail to reflect the evidence which established without dispute appellant's allegations that appellant has estab-

lished a reputation for selling up-to-date, well-styled apparel at prices below those of its competitors.

Appellant's stores had an established trade with persons from San Jose and adjacent cities, and many regular customers.

Again, no finding was made with respect to appellant's claim and proof that prior to the time that appellee opened his store in San Jose and designated it as "Lerner's", appellant's stores in San Francisco and Oakland had established a substantial nucleus of business with residents of San Jose and communities nearby and, on the basis of such business and as a part of appellant's plan, policy and practice of expanding from the populous cities in which it had first established its stores into the smaller communities nearby, appellant had leased additional locations in which to open new stores in San Jose, Palo Alto and San Mateo and Burlingame.

Finding IV (Tr. 32) states that appellant's customers in San Francisco and Oakland consist in a substantial part of persons who comprise the passing pedestrian traffic, and in each instance principally of persons from within those cities, but include some persons from other areas throughout the United States. This finding is misleading and contrary to the evidence in several respects.

In the first place, it overlooks the material evidence that appellant is patronized regularly by persons who trade with its stores in the various cities of the country where such persons happen to be. And the evidence also showed that many of the customers of

appellant's stores in San Francisco and Oakland patronize such stores repeatedly.

In the second place, this finding is incomplete and misleading in its reference, in a rather off-handed manner, to the fact that appellant's patrons do include some persons from places other than the cities where appellant's stores are located. The facts affirmatively establish, without dispute, that a substantial number of customers of appellant's stores in San Francisco and Oakland are from cities all up and down the San Francisco peninsula, including San Jose.

Appellee took no precautions to distinguish his store from appellant's stores.

The findings fail to reflect in any manner the material evidence showing that appellee had never done business as "Lerner's" prior to the time that he opened his store in San Jose, that he had never engaged in the retail business anywhere, nor in any business located in San Jose. Nevertheless, the findings state, as a purported conclusion from the evidence, that appellee took reasonable precautions to prevent confusion between his business and that of appellant. (Tr. 33, Finding V.) The evidence clearly shows directly to the contrary. It is true that after appellant wrote to appellee protesting the designation of his store as "Lerner's", and after this litigation was started, appellee made certain changes in the sign on his store and in his advertising,—changes which came too late to undo the harm which he had caused, and concerning which there is no assurance that they will

be effective or permanent. Moreover, the evidence is uncontradicted that prior to the time that appellant became aware of appellee's store, appellee took no precautions and made no effort whatsoever to prevent confusion between "Lerner's" in San Jose and appellant's stores, although he admitted that he knew of appellant's stores in San Francisco, Oakland and other places and had visited several of such stores. There is no finding with respect to such material evidence bearing directly upon appellee's original intention in designating his store as "Lerner's".

The finding that appellee's newspaper advertising showed the differences between the two businesses, is squarely contrary to the evidence.

The findings stated that appellee's newspaper advertising,

"* * * was of such character and form as to clearly distinguish defendant's business from that of 'Lerner Shops' and the text and layout of such advertising was such as to inform the public that defendant dealt in merchandise of generally higher quality and price than said 'Lerner Shops' and that defendant catered to a higher class of trade than said Lerner Shops." (Tr. 34, Finding VI.)

The evidence on this subject is the advertising itself and such evidence is not open to dispute. The advertisement appearing on pages 12 to 15 of the transcript, and appellee's subsequent advertisements, show that they furnish no possible method whereby the prospective customers could ascertain the price or quality of

appellee's merchandise, let alone that such merchandise was higher in price or better in quality than that sold in appellant's stores. After this litigation began, appellee commenced to use the word "Wilfred" in his advertising, but such word was used in subordination to the word "Lerner". And even when appellee began to include in his advertisements the prices of his merchandise, such advertisements solicited the purchase of the same items of merchandise as are sold in appellant's stores, and show such items at prices which are in the same range as those of appellant.

Appellant's business, from the beginning, has been an expanding one.

The record shows that the trial Court was convinced that appellant's stores did have a good will and a proprietary right to the name "Lerner Shops". (Tr. 297.) Yet the findings are completely silent upon such points, as well as with respect to the evidence proving the material facts that appellant's good will was established by persons named "Lerner" as far back as 1919, and that under leadership of the Lerner family and pursuant to its plan and policy appellant has progressively expanded its organization and good will since that date. The Court likewise failed to make any findings upon the fact that appellant's stores are operated as divisions or departments of one organization, all known to the public under the name of "Lerner" or "Lerner's", in spite of their formal designation as "Lerner Shops".

Appellee's store is similar in appearance to appellant's stores.

The findings stated that appellee's store in San Jose,—

“* * * is of a character and appearance so distinctive and different in every material respect from that of said Lerner Shops that no person * * * exercising ordinary care would confuse it with said Lerner Shops.” (Tr. 33, Finding VI.)

Here again there is no evidence to support such a broad finding. The record presents a situation directly to the contrary. It is well known that in cases of unfair competition absolute identity is seldom if ever resorted to by the defendant. The photographs in evidence show that appellant has many stores of the same size and general appearance as appellee's store. Appellee's store is similar in size to appellant's stores on Grant Avenue in San Francisco and in Oakland and other places. Appellee's designation of his store as “Lerner's” on his billboard type of sign, and on his show-windows, boxes and bags, while not identical with the designation used by appellant in such instances, nevertheless consists almost entirely of the name “Lerner”, which word is the key word in the designation by which appellant is known to its patrons and prospective customers. The same articles of merchandise as appellee sells are sold by appellant and the price ranges of the parties overlap. Appellant submits that the broad and superlative finding made by the trial Court as quoted above would indicate that the two businesses do not even sell the same items of merchandise. The record is barren of any evi-

dence showing any material differences between the stores of the parties.

There was actual confusion between the two businesses.

The findings state that there has been no confusion between the two businesses and no damage to appellant. (Tr. 33, Finding V.) Appellee himself testified that some persons inquired of him concerning the relationship between the two businesses. In addition, the evidence showed that other persons patronized appellee's store believing that it was one of appellant's stores. It is true that as to this latter evidence the trial Court stated that it could not give any weight to what appellant's employees testified that customers told them, and the Court indicated that the customers themselves should have been produced as witnesses; this in spite of the practical difficulty since, in a cash business, the names and addresses of customers are not ordinarily obtained. (Tr. 96-97.) However, such evidence has been judicially recognized as admissible, and entitled to weight as showing the state of mind of customers. In so holding, it was stated:

“Without this type of proof it would be difficult to show confusion.” (*S. C. Johnson & Son v. Johnson*, 28 F. Supp. 744, 749, affirmed as modified, 2 Cir., 116 F. (2d) 427.

In the case at bar the evidence detailed above shows that employees working in each one of appellant's three stores in San Francisco and Oakland had separately encountered patrons who had mistaken appellee's store for one of appellant's stores. Such

evidence constituted substantial proof of the likelihood of confusion as well as of actual confusion. The conversations between employees and patrons on this matter began to occur prior to the time that appellant even knew that appellee had opened a store designated as "Lerner's" in San Jose, and appellant's chief executives neither knew of nor anticipated such occurrence. Such conversations took place between employees and patrons who are not expected to know the importance of the matter or the possibility of litigation, and the patrons probably would have taken offense if an attempt had been made to involve them in litigation. Furthermore, it appeared that some of the employees did not even know that the appellant had not opened one of its stores in San Jose. The nature of appellant's organization is such that it could not expect its employees as a practical matter to get the names and addresses of or to detain customers in order to acquaint them with the facts and solicit their aid in litigation. Therefore, both on principle and authority appellant was entitled to a finding that the evidence showed that there had been actual confusion between the two businesses and that some persons had patronized appellee believing that they were patronizing appellant.

The two businesses compete within the same trading area.

Paragraph VII of the Findings states that:

"defendant was first in the field in and about the City of San Jose in the retail ladies' ready-to-wear business under a name including the word 'Lerner's'."

This finding also includes a statement that the business of appellee is in a separate "trading area" from any of appellant's stores. Hereinabove we have set forth in detail the uncontradicted evidence on these subjects. Such evidence shows (and most residents of the San Francisco Bay Area well know) that both San Jose and the cities in the vicinity thereof such as Palo Alto, Los Altos, Los Gatos and others, are within the trading area of San Francisco, and that San Francisco retail stores in the central shopping district expect and regularly receive a portion of their business from residents of such communities. Appellee opened his store in San Jose under the name "Lerner's" after appellant had leased a location but prior to the time that appellant was able to open its planned store in San Jose. But the evidence leaves no doubt that prior to the opening of appellee's store appellant was doing business with persons residing "in and about the city of San Jose", and had taken definite steps to maintain its patronage and enlarge its activities, and as a part of its plan and practice of expanding its organization into the area near its San Francisco and Oakland stores had procured said location and said lease.

Appellant's plan to open one of its stores in San Jose was delayed by the outbreak of the war.

Paragraph IV of the findings adverts to the fact that appellant had leased premises in San Jose in 1941 and that the premises were occupied by sub-tenants at the time of trial. But again, the finding is incomplete and misleading: there is no reference to the

evidence that appellant was required to reconstruct the leased premises after July 1942, that the war and construction limitations intervened, and that appellant was therefore required to postpone reconstruction and the use of most of the premises for one of its stores, as required by its lease, until the lifting of construction regulations.

Appellant was the first to do business under the name "Lerner" with residents of San Jose.

What has been said above concerning Paragraph VII of the findings applies equally to the additional portions of said paragraph wherein it is found that appellee is not doing business in any area or market previously entered by appellant and that appellee is not in competition with appellant. There is no evidence to support such finding and there is uncontradicted evidence pointed out hereinabove which shows that appellant's stores in San Francisco and Oakland had regular and continual patronage from residents of San Jose and communities nearby and that there is a substantial amount of trade with San Francisco stores by persons who resided in such cities.

II. RECAPITULATION OF BASIC FACTS.

Appellant submits that under the authorities which have considered factual situations like the one at bar prejudicial error was committed in these omissions of the lower Court to make findings upon material matters and in the making of findings which

are clearly contrary to the evidence. The relevant authorities, to which we shall refer, uniformly hold that the evidence contained in the record at bar entitled appellant as a matter of law to an injunction against appellee, even though the nature and extent of the relief to be granted appellant may lie in the exercise of sound legal discretion.

Properly analyzed the record definitely and clearly establishes the following salient facts as to which findings should have been made in accordance with the evidence which has been detailed above:

1. Over a period of twenty-eight years beginning in 1919 appellant's business had been built up and through policy, plan and practice had been expanded into particular areas throughout the country so that at the time of trial appellant had 181 stores in 41 states and the District of Columbia;

2. The formal designation by appellant of its stores is "Lerner Shops", but the majority of its patrons and prospective customers know and refer to appellant and its stores as "Lerner's";

3. Appellant expanded into California in 1930, and prior to the time that appellee opened a store designated as "Lerner's" in San Jose appellant had had thirteen stores in this state, two of which are in San Francisco and one in Oakland;

4. In the operation of its business in California it has been the policy, plan and practice of appellant, like that of other chain store organizations, first to establish its stores in populous cities and in the best

retail business sections thereof, and after building up a patronage from the residents of the area from which such cities draw their trade, to use such patronage as a nucleus for new stores in the smaller communities suburban to such populous cities;

5. In conformity with such policy appellant first opened its stores in the Bay area in San Francisco and Oakland in 1934 and 1935 and thereafter leased or purchased additional locations for stores on the San Francisco peninsula, one of which was in San Jose. Appellant negotiated a lease of the San Jose location in 1941, the term to commence July 1, 1942 when pre-existing tenancies of the premises would expire. However, the advent of the war and governmental restrictions on reconstruction thereafter precluded appellant from carrying out the obligations of its lease to reconstruct and occupy most of the location with one of its stores, at any time prior to the date that appellee opened his store in San Jose on June 1, 1944;

6. Appellant's regular business records, consisting of exchange, refund and adjustment slips and photostats of checks received from patrons, as well as the testimony of appellant's employees, demonstrate beyond doubt that appellant's stores in San Francisco and Oakland were patronized regularly and continually by residents of San Jose, Palo Alto and Redwood City and other communities to the extent of hundreds of transactions each year. Similarly, a survey made among persons upon Market Street in San Francisco and the uncontradicted testimony of

the employees of appellant, proved beyond argument that appellant's stores in San Francisco and Oakland receive substantial patronage each day from persons who were its customers in stores in other cities at some prior time;

7. In May, 1944, and admittedly with prior knowledge of the existence of appellant and its stores throughout the country, appellee designated his newly opened store in San Jose as "Lerner's". Appellee's name is Wilfred A. Lerner. He had never been in the retail business anywhere, had never been in any business in San Jose and had never operated or been connected with a previous business designated as "Lerner's". All of the items of merchandise which appellee carried were also offered for sale in appellant's stores and the price ranges of the two businesses overlapped;

8. Appellee's store draws patrons from an area which includes Palo Alto, Redwood City, Los Altos and other cities which are also within the trading area of San Francisco and Oakland;

9. In announcing the opening of his store and after beginning business appellee ran advertisements in the San Jose newspapers offering for sale articles of merchandise which are the same as those offered in appellant's stores, and which advertised neither prices nor quality. Such advertisements featured the name "Lerner's";

10. Employees in each of appellant's stores in San Francisco and Oakland have from time to time en-

countered patrons who have patronized or visited appellee's store under the mistaken idea that it was one of appellant's stores. Moreover, appellee himself testified that persons coming into his store as often as once or twice a month asked him if he was related to the people who have the store in San Francisco.

11. Appellant's business is widely known and its good will is extremely valuable, appellant's reputation being that it sells up-to-date, well-styled items at prices which are lower than those of competitors. Appellant operates upon a margin of gross profit of approximately 33-1/3 per cent while that of appellee is approximately 42 per cent, thereby enabling appellant to sell the same or comparable merchandise for less than the prices charged by competitors, including appellee.

III. BY REASON OF THE FACTS THAT APPELLANT'S STORES ARE KNOWN AND REFERRED TO AS "LERNER'S", AND ITS STORES IN SAN FRANCISCO AND OAKLAND HAVE REGULAR CUSTOMERS IN SAN JOSE AND NEARBY PENINSULA CITIES AND ARE CONTINUALLY PATRONIZED BY RESIDENTS OF SUCH AREA, APPELLANT WAS ENTITLED TO AN INJUNCTION RESTRAINING APPELLEE FROM OPENING A COMPETING STORE IN SAN JOSE KNOWN AS "LERNER'S".

The general principle according to which the rights of the parties are governed is stated by the Supreme Court of the United States in the case of *L. E. Waterman Company v. Modern Pen Company*, 235 U. S. 88, 35 S. Ct. 91, 59 L. ed. 142, 146, as follows:

“But, whatever generality of expression there may have been in the earlier cases, it now is established that when the use of his own name upon his goods by a later competitor will and does lead the public to understand that those goods are the product of a concern already established and well known under that name, and when the profit of the confusion is known to, and, if that be material, is intended by, the later man, the law will require him to take reasonable precautions to prevent the mistake. *Herring-Hall-Marvin Safe Co. v. Hall’s Safe Co.*, 208 U. S. 554, 559, 52 L. ed. 616, 620, 28 Sup. Ct. Rep. 350. There is no distinction between corporations and natural persons in the principle, which is to prevent a fraud.”

This principle was applied by this Court in the case of *Horlick’s Malted Milk Corporation v. Horluck’s Inc.*, 9 Cir., 59 F. (2d) 13, wherein this Court held:

“Defendant seeks to justify its use of the word ‘Horluck’s’ in its name and in its advertising of malted milk upon the ground that the surname of its founders and principal stockholders is ‘Horluck’. As a general proposition, a person has a right to use his own name in connection with any business which he carries on honestly. *Howe Scale Co. v. Wyckoff, Seamans & Benedict*, 198 U. S. 118, 25 S. Ct. 609, 49 L. ed. 972. But where a personal name has become associated in the minds of the public with certain goods or a particular business, it is the duty of a person with the same or similar name, subsequently engaging in the same or similar business or dealing in like goods, to take such affirmative steps as may be necessary

to prevent his goods or business from becoming confused with the goods or business of the established trader. *Herring-Hall-Marvin Safe Co. v. Hall's Safe Co.*, 208 U. S. 554, 559, 28 S. Ct. 350, 52 L. Ed. 616; *L. E. Waterman Co. v. Modern Pen Co.*, 235 U. S. 88, 35 S. Ct. 91, 59 L. Ed. 142. * * *''

The foregoing cases were concerned with the use of a name as applied to a product but the law is well settled that there is no difference between the rule which governs those cases and that which is applicable with respect to the use of a name to designate a business. This was recently pointed out by the Supreme Court of California in the case of *Academy of Motion Picture Arts and Sciences v. Benson*, 15 Cal. (2d) 685, wherein the factual problem was not like that at bar, but the Court had occasion to define the rules by which the law of California measures the rights of the parties in this class of cases. The Court there held:

"The defendant has adopted a name which *prima facie* is broad enough in its concept to be mistaken by the ordinary unsuspecting person for the institution created by the incorporators of the plaintiff. The plaintiff has stated a cause of action which, if supported by proof, would entitle it to the relief sought, or which would require the defendant to alter her trade name by some designation calling attention to the limited scope of her school in order to prevent confusion with the institution or society represented by the plaintiff—as stated by Justice Holmes in *Herring-Hall-Marvin Safe Co. v. Hall's Safe Co.*,

208 U. S. 554, 559 (28 Sup. Ct. 350, 52 L. Ed. 616), 'so as to give the antidote with the bane.'

"* * * And it does not appear necessary that the parties be in competitive businesses or that the injury has already occurred. It is sufficient if the names, although not identical, are sufficiently similar to cause confusion and injury. (*Colorado National Co. v. Colorado Nat. Bank of Denver*, 95 Colo. 386 (36 Pac. (2d) 454); *Standard Oil Co. of New Mexico, Inc. v. Standard Oil Co. of California* (C.C.A.), 56 Fed. (2d) 973; see note with cases cited, 66 A.L.R., at pp. 967, 968, 971, 972.) The general principle is thus stated in *Celluloid Mfg. Co. v. Cellonite Mfg. Co.*, 32 Fed. 94, at page 97; 'Similarity, not identity, is the usual recourse when one party seeks to benefit himself by the good name of another. What similarity is sufficient to effect the object has to be determined in each case by its own circumstances. *We may say, generally, that a similarity which would be likely to deceive or mislead an ordinary unsuspecting customer is obnoxious to the law.*' (See, also, 26 R.C.L., p. 888, and cases cited in the note.)" (Italics added.)

Cases factually analogous to the case at bar.

And in cases where the evidence has been similar to that presented in the case at bar it has been uniformly held by the Courts, including those of California, that such evidence entitled the plaintiff to relief. The cases which have dealt with the problem establish that a plaintiff who has first used a particular name in a business is entitled to protect his good will and reputation against a later comer desig-

nating his business by the same or a similar name even though the stores or places of business of the parties are in different communities, if the later comer is doing business within the actual trading territory or the normal area of expansion of the plaintiff.

Such a factual situation was considered by the California District Court of Appeal in the case of *George H. Benioff v. David Benioff and Fred Benioff*, 64 Cal. App. 745, 222 Pac. 835. In that case the plaintiffs, beginning in 1915, had conducted a retail fur business in San Francisco under the name of "Hudson Bay Fur Co." The business was extensively advertised in San Francisco and Oakland. Some circulars and some catalogues soliciting a mail order business were mailed as far south as Bakersfield. No attempt was ever made to advertise the business locally in Los Angeles. Plaintiffs had made sales to people who resided north and south of San Francisco, some in Los Angeles, and some business went out on mail orders. While plaintiffs were investigating certain property in Los Angeles in February 1921 for leasing and opening a store in Los Angeles, the defendants started a Hudson Bay Fur Co. to engage in the retail fur business with its principal place of business in Los Angeles. Plaintiffs sued and obtained an injunction enjoining defendants from engaging in the fur business in California under the name Hudson Bay. Defendants appealed, contending that the injunction was erroneous insofar as it applied to Los Angeles. The judgment was upheld on appeal, the Court stating (p. 747):

“Appellants’ main contention is that respondents’ business is confined *principally* to the San Francisco bay district and that their market does not extend to Los Angeles; that, therefore, any business conducted by appellants in Los Angeles would not be in competition with respondents at all, and hence could not be *unfair* competition. They then argue that the right to protection of a trade name does not extend beyond the market of the person claiming the same, and that, therefore, respondents are not entitled to protection against the use by others of their trade name in Los Angeles.

“We agree with the rule stated by appellants, but in its application they have assumed a state of facts directly contrary to the findings of the trial court. The findings are in part to the effect that plaintiffs’ business extends over the whole of the state of California and that they have customers in all the principal cities of the state; that the business conducted by the said plaintiffs has been and is known to all persons dealing with them and throughout the whole of the state of California as the Hudson Bay Fur Company; ‘that as a result of the care, attention, skill and strict adherence to their said business and through their honesty and fair dealing the said plaintiffs have under the name of Hudson Bay Fur Company established throughout the state of California a wide and honorable reputation as a fair and reliable business and firm to deal with and the said plaintiffs under said trade name now enjoy throughout the whole of the state of California, and elsewhere, a good reputation and credit.’ * * *

“We are satisfied upon reviewing the evidence that it supports these findings, and that the two concerns, engaged in the same character of business, under identical names would be competing for the same patronage. It can scarcely be doubted that this would result in deceiving and confusing the public to respondent’s detriment. This is held to be unfair competition. In the interest of fair dealing, courts of equity will protect the person first in the field doing business under a given name to the extent necessary to prevent deceit and fraud upon his business and upon the public. (*Yellow Cab Co. of San Diego v. Sachs*, 191 Cal. 238 (216 Pac. 33).) For this purpose the second comer may be enjoined from using the name. (*Morton v. Morton*, 148 Cal. 142 (1 L.R.A. (N.S.) 660, 82 Pac. 664); *Dodge Stationery Co. v. Dodge*, 145 Cal. 380 (78 Pac. 879); *Hainque v. Cyclops Iron Works*, 136 Cal. 351 (68 Pac. 1014); *Bissell Chilled Plow Works v. T. M. Bissell Plow Co.*, 121 Fed. 357; *Ball v. Best*, 135 Fed. 434; *Juvenile Shoe Co. v. Federal Trade Commission*, 289 Fed. 57); and this is true even though, as, in this case, the principal places of business are at a considerable distance from each other. (*Bissell Chilled Plow Works v. T. M. Bissell Plow Co.*, 121 Fed. 357, 371; *Northwestern Knitting Co. v. Garon*, 112 Minn. 321 (128 N. W. 288, 291); *Ball v. Best*, 135 Fed. 434; *Juvenile Shoe Co. v. Federal Trade Commission*, 289 Fed. 57.)” (Italics added.)

We have not overlooked the fact that the decision in *Benioff v. Benioff* was based upon findings of the trial Court in favor of the plaintiff. Nevertheless, that decision is applicable to the case at bar because,

as pointed out above under the evidence contained in the record the trial Court exceeded its discretion in failing to find (1) that appellant's business extended into the cities up and down the San Francisco peninsula, including San Jose; (2) that appellant's business is known and referred to as "Lerner's"; (3) that appellant has established a valuable reputation and good will for its stores; (4) that appellant and appellee compete for patronage. The decision in *Benioff v. Benioff* shows clearly that such matters constitute most material issues and that the trial Court erred to the substantial prejudice of appellant in its handling of the evidence and findings relating thereto, as has been pointed out hereinabove.

Likewise, the fact that in the *Benioff* case it appeared that some business was solicited and mailed out to southern California as mail order business, does not differentiate that case from the instant one. The decision in favor of the plaintiff was sustained upon the principle, equally applicable to the case at bar, that in spite of the geographical distance between the two businesses, the plaintiff was regularly doing some business with the residents of southern California, and was therefore entitled to an injunction against a later comer entering that trading area under a confusingly similar name.

The problem was considered and similarly determined by the Supreme Court of Washington in *Groceteria Stores v. Tebbetts*, 162 Pac. 54. The facts in that case are stated in the opinion of the Court and were as follows:

“This action was brought by appellant, a corporation, for the purpose of restraining respondent from in any manner using the trademark or tradename ‘Grocceteria.’ The complaint alleges that appellant has opened up several grocery stores in the city of Seattle, which are designated as ‘Grocceteria No. 1,’ ‘Grocceteria No. 2,’ and ‘Grocceteria No. 3;’ *that it has been selecting and procuring leasehold interests in the city of Tacoma preparatory to going into business in that city, and that it has been doing business from its Seattle office with people in the city of Tacoma;* that appellant’s stores are operated in such a manner that no deliveries are made to purchasers and no clerks employed, each purchaser making his selection and paying for the same on his exit, thus greatly reducing the operating expenses of the store and allowing appellant to sell groceries at a greatly reduced price, and that the trademark of appellant is marked upon the container in which the goods are sold; that appellant is the first person in the state of Washington to use the method of operating a grocery store as described above, and has used large sums of money to advertise the same; that it is the first person in the state of Washington to use the word ‘grocceteria’ as a trademark or tradename, and that on November 10, 1915, the secretary of state granted a certificate of registration of such trademark to appellant; that respondent M. C. Tebbetts is engaged in conducting a grocery business in the city of Tacoma, and has placed on the windows of his store large signs containing the words ‘Pacific Grocceteria,’ *giving particular prominence to the word ‘grocceteria;’* that respondent is using the trademark and tradename of appellant in order

to convey to the public the idea that he is merchandising and trading in the goods of the plaintiff, and is attaching the name and word 'Groceries' to the goods sold in respondent's store. A demurrer to this complaint was sustained. As appellant elected to stand upon the complaint, a judgment of dismissal was entered from which the appeal is taken." (*Italics added.*)

The trial Court denied plaintiff any relief, and plaintiff appealed. The Supreme Court of Washington reversed the judgment, and held:

"Relying on the rule announced in *Eastern Outfitting Co. v. Manheim*, 59 Wash. 428, 35 L.R.A. (N. S.) 251, 110 Pac. 23, respondent asserts that, as appellant has established no place of business in the city of Tacoma *and has done no business there*, it is not entitled to the exclusive use of the word 'groceries' in that community. It is true, in *Eastern Outfitting Co. v. Manheim*, we held that the fact to be ascertained was, what is the market of the complaining party and his protection in the use of his tradename is coextensive with his market. The court then found that the plaintiff's place of business was in Seattle, and it was doing no business whatever in Spokane, and was therefore not entitled to the use of the tradename in Spokane as against defendant, who had, at a large expense, established a business in Spokane. The rule as laid down in the *Eastern Outfitting Co.* case, *supra*, in any event is not applicable here, as it is alleged in the complaint, and admitted by the demurrer, that *appellant is doing business with the people of Tacoma, which makes Tacoma a part of its market.*

“It is not here intended to enjoin and prohibit the method of doing business pursued by respondent, but only the piratical use of the tradename or trademark and label ‘Grocceteria’ within the state.

“The judgment is reversed, and the cause remanded for further proceedings not inconsistent herewith.” (*Italics added.*)

A leading case is *Sweet Sixteen Co. v. Sweet “16” Shop, Inc.*, 8 Cir., 15 F. (2d) 920. In that case the essential facts are also stated in the opinion of the Court and were as follows (p. 920):

“The record is long, but the salient facts are fairly simple and not involved. They run thus: In the year 1916, plaintiff began business in San Francisco, as a dealer in women’s ready-to-wear clothing, under the name of Sweet Sixteen Company, a corporation. In its business and advertisements it referred to many of its garments and goods as ‘Sweet Sixteens,’ it designated its system of dealing as the ‘Sweet Sixteen System,’ and it sold many of the garments kept for sale by it at \$16 per garment. In the beginning it had but one store. It prospered in such wise as that, by the year 1921, it was the owner of five stores, two in San Francisco, and the others in three other cities of the coast states, namely, Los Angeles, Portland and Seattle, as also an office and general purchasing agency in New York. It was advertising its business in divers trade journals and in the daily newspapers of the several cities in which its stores were located. Some 75 of these newspapers were daily sold and read in Utah. Its annual advertising expenditures in the year last

mentioned exceeded \$30,000, and in the year in which this suit was begun, amounted to more than \$120,000. It had a very considerable mail order business, through which it sold some goods in some 12 or 15 different states, among which was the state of Utah. *While the business done thus in the state of Utah was, in proportion to its total business, negligible, it was making efforts to increase it, and to this end, in the year 1921, it sent some 1,500 of its printed catalogues into that state. In the year 1922 it supplemented this selling and advertising campaign in the state of Utah by distributing therein pictures and drawings of many of the articles kept by it for sale.*

*“Prior to 1923, and about the year 1921, it put on foot tentative plans to rent and establish a store in Salt Lake City, Utah. These plans were not consummated, however, up to April 3, 1923, when defendant started in Salt Lake City a wholly similar business (save that it does not particularly cater to the mail order business), dealing in like merchandise, which defendant ran and operated under the name of the Sweet ‘16’ Shop, Inc. * * * there is left no question in the case that defendants assumed this name with full knowledge of its use by plaintiff, if such fact shall be of controlling importance.*

“The record discloses fairly numerous instances wherein dealers, customers, and potential customers were misled by the similarity of names into mistaking defendants’ business for that of plaintiff. It is well settled that, both in cases of unfair competition unaccompanied with trade-mark infringement, and in cases of infringement of technical or common-law trade-marks, the essence

of the wrong consists in the sale or mistaking of the goods of one dealer or manufacturer for those of another, and that this essential element is the same in both classes of cases. * * *

“In the instant case defendants Provol and Wrigley, while they were copartners, before they organized defendant corporation and before they actually began business, had notice of plaintiff’s prior adoption, appropriation, and use of the words ‘Sweet Sixteen’ to designate its business, and as a trade-mark on the goods in which plaintiff was dealing. The trial court so found, and the facts in evidence conclusively so disclose. Not only is this conclusively shown by the telegram sent to Provol, notice to whom as a partner was notice to Wrigley (20 R.C.L. 355), but it is corroborated by other evidence in the case, some of which is suggestive, if not sinister. For example, they saw fit to make a slight change in the manner of representing the expression ‘Sixteen’ by the use of quoted numerals instead of spelling the word out, as plaintiff does; before they began business, and before they had ever actually used this mark, they registered it as a trade-mark with the secretary of state of Utah. Aside from the finding of the trial court, and of the conclusive evidence of prior notice, the two latter precautions are such as would not ordinarily be taken by those who were wholly innocent of plaintiff’s existence and of its use of the mark in controversy.

“Apposite to the exception of prior appropriation of the field of trade and of the right to a natural expansion into such field, the facts, as already said, are that plaintiff in 1921, and some two

years before defendant began business under the style complained of here, had sent some 1,500 of its catalogues into Utah and to Salt Lake City; in 1922 it supplemented these catalogues by sending into that state pictures and drawings of many of the goods kept and sold by it; and it had sold to citizens of Utah at Salt Lake City some goods and had filled some mail orders there; in all, making some six or eight sales in one or the other of the above ways. Newspapers containing its advertisements had constantly been sold in Salt Lake City for a number of years before defendants did the act here complained of. Plaintiff avers, and the evidence discloses, its intention to establish a store in Utah, and to this end it had already taken tentative steps till the acts of defendants forestalled it.

“From the above cases and authorities, and many others which could be cited, it would seem to follow inevitably, that if ‘a single instance of user, with accompanying circumstances evidencing an intent to establish the right to a trademark’ (Hopkins on Trademarks, *supra*), be sufficient to establish such right in San Francisco, as against an alleged infringer in that city, then six or eight instances of such use, by sales of trade-marked goods, accompanied by fairly extensive advertisements in certain newspapers circulated and read in Salt Lake City, and the distribution therein of many catalogues ought, *ceteris paribus*, to be sufficient user, as against a subsequent appropriator, to constitute infringement by the latter in Salt Lake City.

“Considering the case as it was presented, and without reference to any other questions, save

those mooted in the pleadings, the briefs, and arguments, we are of opinion that the case should be reversed and remanded, with directions to grant to plaintiff the relief for which it prays. Let an order be entered accordingly, with costs to be taxed in favor of appellant." (Italics added.)

In the *Sweet Sixteen Co.* case, six or eight sales by the plaintiff, accompanied by attempts through advertising to extend its business in Utah, were held to constitute prior entry into the area and to give the right to the plaintiff to expand therein without competition from a business similarly designated. Appellant's case for an injunction is even stronger—for appellant had an established, regular business with residents of San Jose and vicinity, and hundreds of transactions per year with such persons. Appellant's business was known and patronized by such persons, prior to the time appellee designated his store as "Lerner's", without the necessity of appellant advertising in newspapers. Appellant was therefore first in such trading area, and entitled to complete its plans for expansion therein without competition from another business named "Lerner's".

In *Western Auto Supply Co. v. Knox*, 10 Cir., 93 F. (2d) 850, plaintiff alleged: "That it operated a growing chain of stores, which had started in Kansas in 1909, and had spread throughout the west with stores in Tulsa and in Oklahoma City; that it mailed catalogues throughout the State of Oklahoma and had established a mail order business over the entire state;

that in 1933 defendant established a store in Enid, Oklahoma, under the name Western Auto Salvage Company, in which he sold automobile accessories and supplies; that defendant then opened additional stores in Perry, Kingfisher, Woodward, Ponca City and Blackwell, all in Oklahoma; that defendant's name is confusingly similar to plaintiff's trade name of "Western Auto Stores".

A separate complaint considered by the Circuit Court of Appeals in the same opinion alleged a similar case against another defendant who opened stores under the name of Western Auto Parts Company—also in cities other than Tulsa or Oklahoma City.

The trial Court dismissed both complaints and plaintiff appealed.

The Circuit Court of Appeals reversed the order of the trial Court, and directed that the complaints be reinstated, holding (p. 852):

"Argument is advanced that the decree should be upheld because the parties are not direct competitors. Neither defendant operates a store in Tulsa or Oklahoma City, and the defendant in the first case deals in part in secondhand merchandise while plaintiff vends only new merchandise. But both defendants conduct their business in closely connected towns in Oklahoma; *they draw trade from territory not remote from the stores of plaintiff* and from territory included in the mail order system of plaintiff; and the second-hand merchandise consists of accessories and parts for all makes of automobiles. The right to restrain a junior in the field is not confined to

cases of actual market competition between identical products. It extends to a case in which one trader represents his products as those of another. A merchant has a sufficient economic interest in his trade-name to restrain another from exploiting it in the sale of his merchandise, even though the two are not engaged in the manufacture or distribution of the identical or like products. *Standard Oil Co. of New Mexico v. Standard Oil Co. of California*, *supra*; *Yale Electric Corp. v. Robertson*, 2 Cir., 26 F. 2d 972; *Wisconsin Electric Co. v. Dumore Co.*, 6 Cir., 35 F. 2d 555; *Horlick's Malted Milk Corp. v. Horluck's Inc.*, 9 Cir., 59 F. 2d 13; *Phillips v. Governor & Co.*, *supra*; *Colorado Nat. Co. v. Colorado Nat. Bank*, 95 Colo. 386, 36 P. 2d 454; *Churchill Downs Distilling Co. v. Churchill Downs, Inc.*, 262 Ky. 567, 90 S. W. 2d 1041. The facts alleged in the bills and admitted by the motions bring the cases well within the rule enunciated in these authorities.

“The decrees are severally reversed and the causes remanded, with direction to deny the motions to dismiss the bills.” (*Italics added.*)

It is worthy of note that the principle of decision applied in the foregoing case, to wit, that actual market competition is not necessary in this class of case in order to entitle a plaintiff to relief, is identical with the rule applied by this Court in the following cases:

Del Monte Special Food Co. v. California Packing Corp., 34 F. (2d) 774;

Phillips v. Governor & Co., 79 F. (2d) 971.

The recent case of *Brooks Bros. v. Brooks Clothing of California, Ltd.*, 60 F. Supp. 442, decided by the District Court for the Southern District of California, is quite similar in many respects to the instant case, although it also presented a number of questions not present here. The plaintiff, Brooks Brothers, a corporation with its principal place of business in New York City, sued and obtained an injunction restraining unfair competition in the use of the name "Brooks" by the defendant Brooks Clothing of California, Ltd., whose principal place of business was in Los Angeles. Both parties sell chiefly men's wearing apparel. Plaintiff's only retail store was in New York City where its predecessors had begun its business early in the nineteenth century. Plaintiff's business in other parts of the country was carried on by mail order and by traveling representatives who called upon only a select clientele. However, in 1939, long after defendant began business, plaintiff established a sales agency in San Francisco and another one in Los Angeles. Defendant began business in 1924 under the partnership name of "Brooks Clothing Company" with a single retail store, and later incorporated. That business was developed so that at the time of the trial defendant was operating a chain of 15 stores all located in the populous cities in Southern California, except for one store which was located in San Jose. Defendant did not use its full name on its store fronts or on its advertising; instead it used only the word "Brooks".

In the *Brooks* case the trial Court determined, as the opinion shows, that the defendant's original use of the name "Brooks" was without wrongful intent and that plaintiff had not shown any actual diversion of business. The defendant in that case, as in the case at bar, denied that there was any competition between its business and that of plaintiff, both by reason of the fact that plaintiff had not had any established place of business in California prior to the time that defendant opened its stores in this State, and that the two businesses catered to different classes of trade.

In issuing an injunction in favor of the plaintiff, the Court rendered an extended opinion in which the law as established in this Ninth Circuit is carefully analyzed. With respect to certain of the points which are applicable under the evidence and the issues contained in the record in the case at bar, the opinion in the *Brooks* case holds as follows:

(p. 450):

"Consequently, the courts, in both trademark and unfair competition cases, have held that where the dominant portion of a trademark, tradename or business has become identified in the mind of the public with the first user, he will be protected in the use of the name, even against a new-comer having the same surname."

(p. 453):

"And, while the plaintiff's top prices may be higher, it does sell men's clothing within the lower range of the defendant. This fact so ob-

viously means competition that it would seem unnecessary to advert to it. Yet, the ardor of counsel for defendant in contending that there is no actual competition calls for comment. They postulate a differentiation between the businesses based upon the dissimilarity of the merchandise of the two parties and its 'appeal' to the different social groups from which they seek custom. You cannot divide the clothing business into categories, according to the social group on which it may depend for patronage. It may well be that a purchaser of clothes chooses to go to one store, rather than to another, because it carries the type of clothes he likes, just as a person may go to a tailor who charges \$135 to \$150 for a suit of clothes, while another prefers to patronize one who charges \$75. But, just as both tailors are in 'the tailoring business', regardless of the price, so are both establishments which sell ready-made clothing in the clothing business. To use a phrase made famous by an American humorist, just as 'Pigs is Pigs', 'Clothes is clothes'. They do not cease to be such because they appeal to one social group rather than another. Nor do the persons engaged in selling them to one rather than another cease to be in the clothing business competitively. Even if the goods be not in competition, the law protects a merchant in his interest 'in other goods, services or businesses which, in view of the designation used by the actor, are likely to be regarded by prospective purchasers as associated with the source identified by the trademark or tradename.' Here, as the evidence shows, through long use, the word 'Brooks' has become identified with the clothes sold by the

plaintiff. And the law does not require that there be actual diversion of trade. It is sufficient that the imitation be of a character which is likely to have that result. *In considering a case like this, we must take into consideration the habits of the American buying public. Just as Americans are prone to abbreviate names, and Young Men's Christian Association became, first, the Y. M. C. A., and later—especially among the soldiers—the Y, so do they abbreviate longer business names. And Sears, Roebuck & Co. become Sears, J. W. Robinson Co. becomes Robinson's, R. H. Macy & Co. becomes Macy's, John Wanamaker becomes Wanamaker's, Tiffany & Co. becomes Tiffany's, and John B. Stetson becomes Stetson's. More, if a person has achieved successful manufacturing or merchandising in a particular field, the average American, who constitutes our buying public, will identify the name with the product. So Tiffany spells jewelry, Waterman, fountain pens, Ford and Chrysler, automobiles, Hoover, cleaners, Wal-tham and Elgin, watches, Standard, oil products, Stetson, hats. When, over the radio, we hear the announcement that the Standard Symphony Hour will be heard, we need not be told that it is sponsored by the Standard Oil Company. When a person informs us that he has bought a Ford, he need not add that it was an automobile. And when he buys a Stetson, we know that he is buying a hat. By the same token, one would close his eyes to reality if, in the face of the record in this case, one would hold that 'Brooks' does not mean the clothes of 'Brooks Brothers' because its customers come from 'the classes' rather than 'the masses.'* Ours is an unstratified society with

constant mobility of persons. Absent a 'caste' system, there can be no 'caste' in merchandising. As prospective customers, 'the Colonel's lady and Judy O'Grady' (or their male equivalents) 'are sisters' (or brothers) 'under the skin.'

The conclusion is, therefore, inescapable that the plaintiff and the defendant are competing in selling clothes and that, in this field, the word 'Brooks' has acquired a secondary meaning to the benefit of which the plaintiff alone is entitled, and in the protection of which, courts will aid."

(p. 461):

"The assumption that because the defendant, beginning in 1924, operated stores in California and used 'Brooks' in its business name, it acquired priority in the local market, might apply to one who came later. But 'Brooks Brothers' were first in the California trade long before that date. So the argument based on this case cannot hold, unless we adopt the untenable theory that, because they appealed to a different clientele, the doctrine of 'confusion of source' does not apply." (Italics added.)

It is to be noted that in determining that the plaintiff in the *Brooks* case was entitled to an injunction, the Court did not differentiate between particular cities in California since it appeared that the plaintiff had been first in the field in this State. Thus the defendant's "Brooks" store in San Jose was the closest place of business in northern California to plaintiff's sales agency in San Francisco. In the case at bar the evidence clearly established the existence all up and down the San Francisco peninsula, including San

Jose, of customers of appellant and a wide acquaintance on the part of the purchasing public with its stores. The distance between San Francisco and San Jose is quite as immaterial in the instant case as the Court in the *Brooks* case considered it to be.

Likewise worthy of note is the Court's reference to the well known fact that it is the habit of the buying public to know and refer to well known business concerns by an abbreviation of the name, and in the possessive,—such as “Macy's”. The evidence in the instant case demonstrates that appellant is known to millions of customers, and that the majority of persons know and refer to it as “Lerner's”. As the Court reasoned in the *Brooks* case, appellee's store was bound to be considered as connected with appellant, no matter what “class” of customers appellee dealt with.

In *Rhea v. Bacon*, 5 Cir., 87 F. (2d) 976, it appeared that for many years prior to 1935, plaintiff and his predecessors had operated a hotel known as “Inn-By-The-Sea”, located on the Gulf of Mexico on the Mississippi coast. It had been widely advertised and was nationally known. In 1935 the defendants opened a hotel on the Gulf of Mexico near Fort Walton, Florida, under the name “Inn-By-The-Sea”. Both hotels are on the Scenic Highway along the coast of the Gulf of Mexico, about 200 miles apart. The defendant also adopted certain features of construction imitative of plaintiff's hotel. The District Court dismissed plaintiff's complaint to enjoin defendant from using said name. Plaintiff appealed and the Circuit Court of Appeals in reversing the District Court held (p. 977):

“The real controversy in this case arises out of the distance between the two hotels, but, since the parties solicit the same customers and cater to the same trade, they come into direct competition with each other, and the distance is not a defense in equity to appellants’ suit, as it is not a barrier in fact to appellants’ injury by appellees.”

In *Terminal Barber Shops, Inc. v. Zoberg*, 2 Cir., 28 F. (2d) 807, the plaintiff built up a valuable good will in the operation of barber shops in New York City under the name “Terminal”. Plaintiff had no place of business in New Jersey. Defendant began operating in New Jersey as “Terminal Beauty Parlors”, and later opened a shop in New York. The district judge confined the plaintiff’s relief to an injunction directed against defendant’s operations in New York, although some of plaintiff’s business came from New Jersey and its name was well known there. Plaintiff appealed. The Circuit Court of Appeals enlarged the relief granted plaintiff so as to include New Jersey as well as New York, holding (p. 809):

“The plaintiff has constantly extended the use of its name within the territory where the defendants are now carrying on business, and there was extensive knowledge of plaintiff’s name and what it stood for in the matter of efficient service in the field where the defendants subsequently came to establish themselves. *As a subsequent user of the name, endeavoring to take the benefit of the reputation of the plaintiff’s goods in this way, or to forestall the extension of its trade, they committed an injury for which equity will afford injunctive relief even though the trade-mark has not been registered under the statute.* The de-

fendants are unquestionably attempting to benefit by the reputation of the plaintiff.

“In *Hanover Star Milling Co. v. Metcalf*, 240 U. S. 403, 416, 36 S. Ct. 357, 361 (60 L. Ed. 713), the Supreme Court said that ‘since it is the trade, and not the mark, that is to be protected, the trade-mark acknowledges no territorial boundaries of municipalities or states or nations, but extends to every market where the trader’s goods have become known, and identified by his use of the mark,’ and further that, where two parties independently are employing the same mark upon goods of the same class, in separate markets, one wholly remote from the other, prior appropriation is immaterial, unless it appears that the second adopter has selected the mark with the same design inimical to the interest of the first user, so as to take the benefit of his reputation for his goods or to forestall the expansion of his trade. Whether the name of a corporation be recorded as a trade-mark or trade-name, or both, the law affords protection against its appropriation, where the general purpose thereof is to obtain a competitor’s business, which he has established or which might be justly in the field of the expansion of his business. *American Steel Foundries v. Robertson*, 269 U. S. 372, 46 S. Ct. 160, 70 L. Ed. 317.

“In *Sweet Sixteen Co. v. Sweet ‘16’ Shop, Inc.* (C.C.A.) 15 F. (2d) 920, the plaintiff had established its business for women’s retail clothing under the name ‘Sweet Sixteen Co.,’ with shops in San Francisco, Los Angeles, Portland, and Seattle. The defendant incorporated under the laws of Utah and began planning the establishment of a store in Salt Lake City using a similar

name 'Sweet "16" Shop.' The argument was there advanced that the defendant had started in a distant city, but the court held that although the plaintiff had no shop in Utah, it should be protected by injunction against the use by defendant of its name. In *Buckspan v. Hudson Bay Co.* (C.C.A.) 22 F. (2d) 721, an injunction was granted against the name of 'Hudson Bay Fur Company' by a firm in Dallas, Texas, where the plaintiff had no place of business and where the defendant was engaged in the sale of manufactured furs and fur garments, whereas the plaintiff, which had been in existence since 1670, had established a world business, with a valuable good will and having periodical sales in London, which were attended by buyers from the United States, and where the plaintiff dealt in raw furs. The defendant had been in business for more than 10 years, but the court held that the trade-name, having a deceptive similarity to that of the plaintiff, enabled the defendant to sell furs as those of the plaintiff, thereby deceiving the public. The plaintiff had no place of business in the United States, but had a market here. In the case under consideration, the plaintiff had no place of business in New Jersey, but had patrons and a good will established there. See, also, *Rice & Hutchins v. Vera Shoe Co.* (C.C.A.) 290 F. 124; *Hub Clothing Co. v. Cohen*, 270 Pa. 487, 113 A. 677; *British-American Tobacco Co. v. British-American Cigar Stores Co.* (C.C.A.) 211 F. 933, Ann. Cas. 1915B, 363.

"* * * After 20 years of industry and erudition, and the expenditure of large sums of money, plaintiff has established an extensive and valuable good will, using the mark 'Terminal' throughout

this period of years. It has become so well defined and associated with the plaintiff's business that to permit another to use the word 'Terminal' would be a serious and constant injury to the plaintiff's business, and must be prohibited. The harm done is irreparable, and the plaintiff must be protected in the time intervening between its application for a preliminary injunction and final hearing. The decree will be modified, so as to enjoin the defendants' use of the word 'Terminal,' alone or in combination with other words, as a trade-name under which they shall conduct their business in both New Jersey and New York." (Italics added.)

In *Rainbow Shops v. Rainbow Specialty Shops* (1941), 27 N.Y.S. (2d) 390, the facts showed, that plaintiff and its predecessors, since 1921, had sold ladies' apparel and specialties under the name "The Rainbow Shop" and "Rainbow Shop", that plaintiff had six stores in Brooklyn; that its name was well known, that plaintiff formerly conducted a branch at Hempstead, Long Island, and was presently seeking to locate stores in Jamaica, Hempstead and Great Neck, and that from 20 to 25 per cent of plaintiff's business emanated from that general territory.

In 1934 defendants opened a store in Great Neck, and later a store in Manhasset, Nassau County, Long Island, called "The Rainbow Specialty Shop" or "The Rainbow Shop".

The Court, in enjoining defendant's use of its name, held:

"During the course of the trial I intimated that a prior trader is entitled to equitable protection in the exclusive use of his trade name not only

within the immediate locality where his business has been previously conducted but also, as here within such territory as may reasonably be expected to constitute a likely field of normal expansion. I am inclined to adhere to that even after a studied reflection. See *Ball v. Broadway Bazaar*, 194 N. Y. 429, 87 N. E. 674; *Stewarts Sandwiches, Inc. v. Seward's Cafeteria, Inc.*, D. C. 60 F. (2d) 981; 63 C.J. p. 444."

In *Stewarts Sandwiches, Inc. v. Seward's Cafeteria, Inc.*, 60 F. (2d) 981 (D. Ct. N.Y.), the plaintiff operated cafeterias known as "Stewarts". Defendant opened a cafeteria on 149th St., New York, under the name of "Sewards". Defendant placed in front of its cafeteria a sign reading "Coming Soon! Another Seward's Cafeteria". In granting an injunction the District Court held (p. 981):

"The affidavits do not convincingly establish that defendant dressed its store front, or furnished its cafeteria so as to simulate any distinctive appearance common to the plaintiff's chain of cafeterias, or that either the plaintiff or defendant dressed their cafeterias in any distinctive manner. *It appears, however, that the defendant did place in front of its premises, No. 378 East 149th Street, in the borough of the Bronx, for a lease of which the plaintiff had prior thereto negotiated, a sign reading: 'Coming Soon! Another Seward's Cafeteria.'* Defendant in fact never had conducted a cafeteria under this name. Plaintiff had been operating at great expense and with considerable success nine cafeterias with which the name 'Stewart's' had become associated, serving daily in the city of New York approximately 38,000 people and doing a business of about \$2,800,000 annually.

*“The only purpose which defendant could have had in thus falsely advertising must have been to give to the public the impression that one of plaintiff’s cafeterias was about to be opened on the premises. * * **

“The fact that the defendant’s cafeteria is located on 149th street and that plaintiff’s nearest cafeteria is located at 50th street does not place defendant’s cafeteria beyond the area in which plaintiff is entitled to protection. Especially in view of the fact that the cafeterias are in a populous city closely knit by swift means of transportation and that plaintiff is operating an expanding system of chain stores, it is entitled to protection over the ‘territory which may be reasonably expected to be within the normal expansion of the business.’ Western Oil Refining Co. v. Jones (C.C.A.) 27 F. (2d) 205.” (Italics added.)

There are a number of additional authorities which support and apply the rule as stated and applied in the above decided cases. They are:

R. H. Macy & Co., Inc., v. Colorado Clothing Mfg. Co., 10 Cir., 68 F. (2d) 690;

White Tower System v. White Castle System, 6 Cir., 90 F. (2d) 67;

Western Auto Supply Co. v. Western Auto Supply Co. (D.Ct. N.H.), 13 F. Supp. 525;

Grocers Baking Co. v. Sigler, 6 Cir., 132 Fed. (2d) 498, 499;

Brass Rail, Inc. v. Ye Brass Rail of Massachusetts, Inc. (D. Ct. Mass.), 43 F. Supp. 671;

Adam Hat Stores v. Scherper (D. Ct. Wis.), 45
F. Supp. 804;
Stork Restaurant, Inc. v. Marcus (D. Ct. Pa.),
36 F. Supp. 90;
Hub Clothing Co. v. Cohen (Pa.), 113 A. 677.

We have cited and quoted at length from the above decisions, in order to show how fully appellant's legal position is supported by the authorities. Such authorities lead to the conclusion aptly stated by the Court in *Bill's Gay Nineties, Inc. v. Fischer*, 41 N. Y. Supp. (2d) 234, 236, that:

"Nothing is more firmly grounded today than, that distance is not a defense."

Under the evidence and the law, appellant's stores, as an expanding group of stores, designated and known to the public by the name "Lerner's" is entitled to the protection of that name as against appellee both by virtue of the fact that appellant has an established trade in San Jose and vicinity and the further fact that that area represents a territory into which appellant normally would expand and where it planned to locate one of such stores. Appellant's business in San Jose and surrounding communities represents a small percentage of its total business, but appellant continually obtains a portion of its business from that area and has many regular customers residing therein. The cited authorities make it clear that appellant's rights are based upon the fact that it was first to do business with the people of San Jose and vicinity and that that area is within the area of its normal, planned expan-

sion, rather than upon a showing that appellant does any particular amount of business in that territory.

Moreover, the rule established by the authorities works no hardship or injustice upon a newcomer in business. Neither his right to do business nor his right to conduct it under his own name is placed in jeopardy. The rule merely requires that he build his business upon its own merit rather than upon the basis of what other persons have done at a prior date through effort and the investment of their resources. Appellee, upon opening his store, was as likely to succeed under his name of "Wilfred A. Lerner" as under the designation which he selected. But he was not justified in using a designation which would operate to obtain for himself the benefit of appellant's established reputation. And, as the *Brooks*, the *Macy* and other cases show, a concern such as appellant which has pioneered and established a valuable business under the name of "Lerner" in the line of business into which appellee was an untried newcomer, might find its good will constantly threatened and subjected to injury at the hands of persons such as appellee, unless such newcomer was under the duty announced in the authorities, to wit, to adopt and use a name which serves to distinguish clearly between the established and the new business.

Appellee submits that both on principle and under the rule of law established by the authorities, appellant is entitled to an injunction against appellee in the case at bar, and that the trial Court erred in denying appellant any relief.

IV. APPELLEE DID NOT ACT IN GOOD FAITH IN DESIGNATING HIS STORE AS "LERNER'S" AND SHOULD BE RESTRAINED FROM USING THE NAME "LERNER" AS HIS TRADE NAME. THE LEAST RELIEF TO WHICH APPELLANT IS ENTITLED IS AN INJUNCTION REQUIRING APPELLEE TO REFRAIN FROM USING THE NAME "LERNER" UNLESS IT IS ACCOMPANIED BY DISTINGUISHING FEATURES DISPLAYED WITH EQUAL PROMINENCE.

Appellant alleged (Tr. 6) and endeavored to prove by evidence discussed hereinabove, that appellee deliberately attempted to obtain the benefit of appellant's established reputation and good will by designating his store as "Lerner's". The evidence showed that appellee's background did not make his name a recognized one in San Jose or in the retail business anywhere, that he well knew of appellant's business and stores, that he was unable to give any logical explanation for adoption of the designation "Lerner's", that he accompanied the opening of his store with misleading newspaper advertisements, and that he continued to refuse to give equal prominence to his given name or any other feature which would distinguish his store from appellant's stores.

The first advertisement which appellee published in the San Jose newspapers stated (Tr. 12):

"Ladies
For You Soon
Lerner's
70 South First St.
Watch
Wait"

This was followed by an advertisement which set forth that (Tr. 14):

“LERNER’S

70 S. First St., San Jose

Makes a Spectacular Entrance!”

After his store had been opened approximately one week, appellee’s newspaper advertisement (Tr. 15) expressed appreciation for acceptance of the new store and closed with the words:

“As always—Lerner’s”

Appellant submits that the only fair and logical inference to be drawn from the evidence is that appellee, a newcomer in the retail business, deliberately sought to obtain the benefit of appellant’s established reputation and good will, and that the trial Court erred in finding (Tr. 33, Finding V) that appellee acted in good faith in designating his store as “Lerner’s” and in his conduct in connection therewith. An advertisement along the same lines as appellee’s “Ladies, Watch, Wait” advertisement constituted a part of the evidence against an alleged unfair trader in the case of *Stewarts Sandwiches, Inc., v. Seward’s Cafeteria, Inc.*, supra, 60 F. (2d) 981, and the Court, in holding that an injunction should be issued, commented on the defendant’s advertisement as follows (p. 981):

“The only purpose which defendant could have had in thus falsely advertising must have been to give to the public the impression that one of plaintiff’s cafeterias was about to be opened on the premises * * *”

The Court’s statement in that case is equally applicable to appellant’s sequence of advertisements in the case at bar. A person entering for the first time

a business in which his name is unknown, would not herald the arrival of such new business solely by reference to a well-established name, nor close his advertisements with the words, "As always", unless his purpose was to create an impression which is not in consonance with the facts, and to obtain the benefit of the good will which is attached to such well-established name. Appellant earnestly contends that under the evidence, appellee should be enjoined from using the name "Lerner" or even the name "Wilfred Lerner" as his trade name, as has been ruled with respect to deliberate unfair competitors by the cases which have considered the matter.

J. A. Dougherty's Sons, Inc. v. Dougherty, 36 F. Supp. 149;

Goldberg v. Goldberg (Ga.), 126 S. E. 823;

P. J. Tierney Sons, Inc. v. Tierney Bros., Inc. (App. Div.), 224 N. Y. S. 144;

Westphal v. Westphal (App. Div.), 215 N. Y. S. 4.

However, if it is assumed, contrary to what appellant believes to be the sound conclusion, that the trial Court did not abuse its discretion in concluding that appellee acted in good faith when he chose and used the designation "Lerner's", appellant was nevertheless under the evidence and under the authorities entitled to an injunction which would serve to prevent confusion as to the relationship of the two businesses and protect appellant against unfair competition. The lower Court was of the view, emphasized by that Court during the trial (Tr. 317), that even if an injunction were granted, the decree should not require

that the distinguishing features to be used by appellee, such as his given name, must be displayed with equal prominence as the name "Lerner". In fact, after commenting that any use by appellee of his given name, regardless of the manner in which he subordinated it to his surname, would meet the requirements of the law, the trial Court showed some impatience with appellant's contrary view and stated (p. 317):

"Of course, that might not satisfy the particular requirements or some standard that the plaintiff wanted, but looking at it as an impartial third person it would seem to me to be sufficient, and that is why I could not understand why you had to go and litigate this matter."

Here again, the view of the trial Court was erroneous. Under the authorities, even if appellee acted without any intent to trade upon the good will of appellant, nevertheless, the least relief to which appellant is entitled is an injunction against any use of the name "Lerner" by appellee which is not accompanied by other distinguishing features such as his given name displayed with equal prominence.

A review of the authorities which have given consideration to the question of the relief to which plaintiff is entitled against a defendant with the same surname, when such defendant, even though acting in good faith, has caused confusion between his business and a previously established business, discloses that it is uniformly required that such a defendant use his full name rather than his surname alone, and that he give equal prominence to each portion of such name.

In *Kaufman v. Kaufman*, 123 N. Y. S. 699, the plaintiff, Benjamin H. Kaufman, conducted seventeen hat stores under the name of "Kaufman hats". The defendant, Samuel Kaufman, opened a store identified by a sign reading "Kaufman hats". There were other factors present in the case which, added to the use of the name, furnished the basis for the issuance of an injunction. With respect to the point here under consideration—the type of relief to be granted to the plaintiff—the Court held that defendant should be enjoined from using the name "Kaufman" on the front of his store and in his general advertising,

"unless, in connection with it he uses his first name on a line with it and *in letters of equal size.*" (Italics added.)

In one of the most recent cases on the subject, *Horlick's Malted Milk Corporation v. Charles Horlick*, 7 Cir., 143 Fed. (2d) 32, the plaintiff, the well-known distributor of Horlick's Malted Milk, sued to enjoin the defendant, Charles Horlick, from distributing a dog food under the name of Horlick Dog Food. The District Court found that defendant had been free from fraud or misrepresentation and that there was no actual confusion in the minds of the public between plaintiff's product and that of the defendant. However, the District Court granted an injunction in favor of the plaintiff which provided that the defendant should be restrained from:

"(a) Using the name 'Horlick' on his packages or in any manner in connection with the manufacture and sale of dog food without using in association therewith some other word or words which shall distinguish his product from plain-

tiff's product, *which word or words shall be printed in type of (at) least one-half the size of the type used in printing the name 'Horlick.'*

“(b) Using the phrase ‘Manufactured by Horlick of Horlicksville, Racine, Wisconsin,’ without using in connection therewith the initials, word or words as set forth in (a) above.” (Italics added.)

Feeling that the District Court did not grant it the full relief to which it was entitled the plaintiff appealed from that portion of the decree which permitted defendant (1) to use the name “Horlick” as a designation for his product and (2) to use in connection with the name “Horlick” an indication of the manufacturer by means of words displayed in type *only half the size of the name “Horlick”*.

On appeal the Circuit Court of Appeals modified the judgment of the District Court and while refusing to enjoin the defendant from the use of his name altogether—the parties selling different products—broadened the relief in favor of the plaintiff, stating and ruling as follows (p. 36):

“The obligation resting upon defendant in using his name is not to insure that every purchaser will know that he is the maker, but to use every reasonable means to prevent confusion. Kellogg Company v. National Biscuit Co., 305 U. S. 111, 121, 59 S. Ct. 109, 83 L. Ed. 73. Because of all the dissimilarities noted above, and because the decree requires defendant to distinguish his product from plaintiff's product, we are not persuaded that plaintiff should have the extremely broad decree it seeks.

“We conclude that defendant may use his name as a designation for his product. But in order to carry out the District Court’s suggestion (50 F. Supp. 417, 419) that *‘If the defendant exercised the reasonable care required, he would have used his own name and address, such as “Manufactured by Charles Horlick, Horlicksville, Racine, R.F.D., Wisconsin”,’* and further to eliminate the possibility that purchasers will think defendant’s product is made by plaintiff, *the decree will be modified by enjoining the defendant from using the name ‘Horlick’ on his packages and labels except in combination with his first name, ‘Charles’, in type equally large and conspicuous, and from using the phrase ‘Manufactured by Horlick of Horlicksville, Racine, Wisconsin.’* He shall substitute in lieu of the last phrase the words, ‘Manufactured by Charles Horlick, Horlicksville, Racine, Wisconsin’. The words, ‘Manufactured by Charles Horlick, Horlicksville, Racine, Wisconsin,’ will appear in letters one-half the size of the printing used in the phrase ‘Charles Horlick’ on the face of the package.

“When the modifications herein suggested are carried out, there will be no poaching on the commercial magnetism of plaintiff’s trade-mark, *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U. S. 203, 205, 62 S. Ct. 1022, 86 L. Ed. 1381, and defendant’s use of his name will be wholly honest, and hence permissible. See Annotation in 47 A.L.R. 1190.

“The decree of the District Court will be modified in accordance with this opinion, and as modified it is affirmed.” (*Italics added.*)

In *Gottdiener v. Joe’s Restaurant* (Fla.), 149 So. 646, the plaintiff had for 10 years conducted a res-

taurant at Miami Beach, Florida, under the names: "Joe's Restaurant" and "Joe's." Plaintiff's restaurant had acquired a reputation for excellence in cuisine and service. Defendant opened a restaurant in Miami Beach under the trade names of "Little Joe's Restaurant" or "Little Joe". Among other things which furnished the basis for an injunction, defendant erected an electric sign over his place of business which when illuminated brought out in bold relief the word "Joe's"—the word "Little" in much smaller letters being illegible at a comparatively short distance. The trial Court ordered that defendant be enjoined altogether from the use of the name "Little Joe" or "Little Joe's Restaurant". Defendant appealed. A majority of the Supreme Court of Florida held that the judgment should be modified, but all of the members of the Court agreed in the requirement that the word "Little" which served to distinguish defendant's restaurant from that of plaintiff should be equally conspicuous at all times with the remainder of defendant's name. The Court stated (p. 647):

"The writer is of the opinion that the decree of the court below, in view of all circumstances shown in the pleadings and evidence, might well be affirmed as written, but the majority of the court are of the opinion that the terms of the injunction granted are too broad. The majority holding is that the injunction of the defendant in the court below should have been so framed as to enjoin the defendant from using or maintaining in connection with his business any signs, placards, or other means of advertisement in which the word 'Little' preceding the words 'Joe's Restaurant' was printed or framed in such small type of characters as to tend to confuse the

identifying of his restaurant business with that of 'Joe's Restaurant'; that is, *that such signs, placards, and means of advertisements used or to be used by the defendant should be so prepared as to make the word 'Little' in designating the business of 'Little Joe's Restaurant' equally conspicuous with the succeeding words 'Joe's Restaurant'*, so as to prevent any confusion in the minds of the public between the businesses respectively of the appellant and the appellee.

"It follows that the decree as granted is erroneous and must be reversed, with directions for reforming the decree so as to conform with the holding hereinabove outlined."

In *Foss v. Culbertson* (Wash.), 136 Pac. (2d) 711, it was held that the defendant was in unfair competition with the plaintiff in including in defendant's trade name the word "University" in connection with the operation of a transfer and storage business. The judgment of the trial Court, however, permitted the defendant to use the name "University" in connection with certain phases of defendant's business and made no restriction as to the manner in which said name should be used. The plaintiff appealed to the Supreme Court of Washington from that portion of the judgment. The Supreme Court of Washington modified the judgment of the trial Court as follows (p. 720):

"We are therefore of the opinion that the trial court should, in addition to the injunctive relief granted to plaintiff, also have enjoined defendant from using the word University in connection with the words storage and warehouse, in the manner in which they have been used, at least so long as defendant operates a moving and

transfer business as well as a storage and warehouse business.

“However, we do not feel justified in enjoining defendant from using the word University in connection with its full corporate name, and we are therefore of the opinion that defendant is entitled to use the word University on its vans and trucks, on its warehouse and in its advertisements, in connection with its full corporate name, *no more prominence to be given to the word University than to the other words in the name.*”

In *L. E. Waterman Co. v. Modern Pen Co.*, 235 U. S. 88, 35 S. Ct. 91, 59 L. Ed. 142, it was held that the defendant was under a duty to use means of avoiding confusion between its product and that of the plaintiff, and the form of the decree granted was that the defendant was required to refrain,—from the use of the name “A. A. Waterman”, to identify its product under the name “Arthur A. Waterman & Company”, and to use an explanatory phrase, “Not connected with the L. E. Waterman Company”, *with the additional requirement that the explanatory phrase “be juxtaposed in equally large and conspicuous letters when the permitted name was marked upon any part of the fountain pen sold by the defendant, or upon boxes containing such pens, and whenever the name was used by way of advertisement or otherwise to denote any fountain pens made or sold by the defendant.”*

In *Warshawsky & Co. v. A. Warshawsky & Co.*, 257 Ill. App. 571, the plaintiff had established a valuable good will in the business of selling second-hand automobile parts and accessories under the name of “Warshawsky’s”. Defendant went into competition

under the name "A. Warshawsky & Co." Upon defendant's place of business and in his publicity the letter "A" was always made less conspicuous than the surname "Warshawsky". There were other factors discussed by the Court in reaching the conclusion that an injunction should be issued, but in connection with the form of the decree, it was held by both the trial and Appellate Courts that in the use of his surname defendant should be enjoined from using it,—

"unless there is added to said name *in letters of the same size, type, script or writing by which said name is displayed*, the words 'not connected with Warshawsky & Co., a corporation'".

In *Stark v. Stark Bros. Nursery and Orchards Company*, 8 Cir., 257 Fed. 9, the Circuit Court of Appeals, upon appeal, granted the plaintiff the additional relief of requiring the defendants, who were adjudged to have been guilty of unfair competition, to attach a notice to all of their circulars, catalogues and advertisements and required that such notice must be,—

"in form *as conspicuous as the body* of such circulars, catalogues or advertisements".

In *R. B. Davis Co. v. Davis*, 2 Cir., 75 F. (2d) 499, the defendant commenced distribution of baking powder in competition with plaintiff's well established product under a label which featured the defendant's name of "Davis". The Circuit Court of Appeals affirmed, with modification, an order granting a temporary injunction against defendant, stating (p. 500):

"Laying aside all controverted issues, it is apparent that the defendant, long before his busi-

ness could have become substantial, learned that the use of his name in baking powder business would be likely to interfere with the plaintiff's old and well-known name. Thereafter he went on at his peril, even though his original purpose was innocent; a conclusion which we are by no means disposed to assume, and whose determination we leave open for the hearing. * * *

In ordering a modified form of preliminary injunction the Circuit Court of Appeals held that the injunction should provide that defendant be restrained,—

“‘From using in connection with the sale of baking powder other than the plaintiff's product, the word, “Davis”, unless accompanied by the prefix, “Julius J.”, and the suffix, “not connected with the R. B. Davis Company, manufacturers of the original Davis baking powder.” *Both prefix and suffix are to be in type of the same font, size and color as the word “Davis.”*’”

The foregoing authorities show that the proper relief to be granted to plaintiff, even if appellee be considered an innocent infringer, must include the requirement that he use his full name and give each word equal prominence at all times. Unless at least that much is done, the attempt to remove and avoid confusion may prove ineffective.

Appellant's right to an injunction was not affected by appellee's use after suit was commenced of the name “Wilfred” in some instances and in subordination to his surname.

Finally, it was also suggested during the trial (Tr. 317) that denial of any relief to appellant was warranted by reason of appellee having made some changes in the designation of his store after the suit

was commenced. No finding was made upon this point but a brief consideration of such suggestion will serve to show that the point is without merit.

The evidence showing the changes made by appellee after this suit was begun has been set forth in detail hereinabove. It showed that in using his given name appellee subordinated it to the name "Lerner". At the same time he continued to use the designation "Lerner" on the front of the entrance between the two show-windows of his store. (Plaintiff's Exhibit No. 17, Tr. 245.) Moreover, appellee maintained throughout the trial that he was under no legal obligation to use his given name or any other distinguishing feature.

The record, therefore, rather than showing that appellee's conduct subsequent to the commencement of suit has removed the threat of future unfair competition, shows quite clearly that appellee is determined to refrain from clearly differentiating his store from appellant's stores.

An identical situation was presented in the case of *R. H. Macy & Co., Inc. v. Colorado Clothing Mfg. Co.*, 10 Cir., 68 F. (2d) 690. In that case, as in the case at bar, the defendant used distinguishing features subsequent to the commencement of the litigation, but failed to give them equal prominence with the name "Macy". In reversing the judgment of the trial Court and directing that an injunction should have been issued, the Circuit Court of Appeals stated (p. 692):

"Distinguishing features, which are not so placed or used as to be sufficiently prominent to prevent deception, or which are not likely to attract atten-

tion, are insufficient. An artifice, such as the use of small print to make inconspicuous the alleged distinguishing features, shows a purpose to effect unfair competition. It is the usual artifice of the unfair trader. *Collinsplatt v. Finlayson* (C. C. N. Y.) 88 F. 693; *Kyle v. Perfection Mattress Co.*, 127 Ala. 39, 28 So. 545, 50 L.R.A. 628, 85 Am. St. Rep. 78."

See also:

Bradford Baking Co. v. Weber Baking Co., 43 Cal. App. 570, 574;

Pinaud, Inc. v. Huebschman, 27 F. (2d) 531, 538;

Plant Co. v. May Mercantile Co., 153 F. 229, 231;

Sears Roebuck & Co. v. Fed. Trade Comm., 7 Cir., 258 F. 307, 310.

CONCLUSION.

Appellant has set forth the evidence in detail and has quoted from the authorities at considerable length, because problems of unfair competition in trade, to a greater extent than most other problems, depend for correct analysis upon careful consideration and appraisal of the detailed items of evidence and surrounding circumstances. The record at bar contains the necessary evidence, but it was not reflected in the findings, and it was incumbent upon appellant, therefore, to point out the relevant facts and to establish their materiality under the authorities.

Appellant submits that it has been shown hereinabove by references to both the evidence and the au-

thorities that the record permits of no other conclusion than that appellant fully established the facts necessary to require that an injunction be issued. It appears:

(1) That appellant is known by its customers and the public as "Lerner's", the very same designation chosen by appellee;

(2) That appellant has adopted and pursued a policy of expansion;

(3) That San Jose is within appellant's normal area of expansion and that appellant actually expanded into that city by taking a lease therein in 1941, long prior to the time that appellee opened his store;

(4) That appellant actually has customers in San Jose and nearby communities;

(5) That some of appellant's customers have been confused by appellee's designation into believing that appellant had opened one of its stores in San Jose.

Those facts entitle appellant to relief, and to that end the judgment should be reversed and the trial court directed to find the material facts in accordance with the evidence as hereinbefore detailed, and upon the basis thereof to issue an injunction in favor of appellant.

Dated, San Francisco, California,
October 2, 1946.

Respectfully submitted,

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